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UGANDA

COUNTRY DEVELOPMENT

STRATEGY STATEMENT

UPDATE

FY 1986

USAID/UGANDA

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I. INTRODUCTION

Since the last Country Development Strategy Statement (FY 85), several essential documents to the Ugandan economy have been prepared. The first document is the Revised Recovery Program 1982-1985 for the Republic of Uganda. This was published October 1983 and contained two volumes. Volume I discussed the macro-economic setting, progress and what is desired to be achieved. It also explained the rationale behind the extension of the Recovery Program for an additional year. Volume II provides a detail breakout, by sector, the projects that are ongoing and within the original Recovery Program of rehabilitation, as well as some new projects requiring funding during the 1982-1985 period.

The second significant document relating to Ugandan economy is the Country Economic Memorandum, World Bank, December 1983. This document provides a detailed assessment of the economic situation since March 1982.

The last resource document is the Stand-By Arrangement, IMF (1983/1984), July 1983. It is designed within a medium-term scenario that projects a continued improvement in the balance of payments along with recovery of domestic production and investment.

This document, as an update to the FY 1985 CDSS, is limited in scope and does not adhere to the format prescribed for a full CDSS. USAID Uganda is required to prepare a full CDSS for FY 87 to be submitted February/March 1985. This (Update) document takes into consideration the decisions already agreed to under the previous CDSS review since they are still valid.

This document provides a thorough update of the Ugandan ecomomy since March 1982 utilizing the resource documents listed above. It covers in summary, the first policy reforms, the initial Recovery Program (background, results and conclusion), and the Revised Recovery Program which is covered in greater depth.

The data in Table I shows that up to 1971-1972 the Ugandan ecomomy was performing moderately well when the economy went into decay. There is now clearer evidence than at any time during the last three years that economic management is improving and with it, economic performance. Uganda, therefore, has the potential to be one of the fastest growing and eventually one of the strongest economies in Sub-Saharan Africa. As one can see from Table I, improvement in the economy is evident in a number of areas. Real GDP grew an average of 5% per annum during 1981 and 1982 and probably sustained into 1983. Government revenue has increased more than nineteenfold over the past two years, from 0.8% to 6.3% of GDP. Expenditure growth on the other hand has been less rapid, because the Government has restricted cash releases to ministries in order to remain within the IMF ceilings. Consequently, the budget defecit was held to about 2% of GDP during 1982/83.

The resulting restraint on bank borrowing by the Government has reduced the rate of monetary expansion. This, together with falling import prices, has helped to control general inflation, which is down from an estimated 100% per annum in 1980-81 to 45% in 1982 and about 30% in 1983.

TABLE I - UGANDA: COUNTRY DATA

Population	13.51 million (1982)	Area	236,000 sq. km.
Population Growth Rate	2.8% per annum (1980-82)	Population Density	57.25 per sq. km.
Adult Literacy Rate	52.3% (1980)	Population Density (less lake and swamp areas)	69.5 per sq. km.
Primary School Enrollment	50.0% (1980)		
GNP Per Capita	US$ 240 [a] (1982)		

Gross National Product in 1982 [b] / Real Annual Growth Rates: Percent

	US$ Million	%	1970-75	1975-81	1982
GNP at Market Prices	7,336	100.0	--	- 3.2	7.8
Gross Domestic Investment	609	8.3	-11.9	- 4.7	27.1
Gross National Savings	353	4.8	-16.9	-10.4	44.7
Current Account Balance	-256	-3.5	--	--	--
Export of Goods, NFS	339	4.6	-11.3	- 7.3	36.1
Import of Goods, NFS	558	7.6	- 9.2	- 5.9	19.0

Annual Rates of Inflation [c]

1970-75	19.24%
1975-79	56.74%
1979-80	107.23%
1980-81	92.80%
1981-82	44.87%
1982-83	30.00% (Estimate)

Value Added (1966 Prices)

	1980		1982	
	US$ Million	%	US$ Million	%
Agriculture	424.0	51.7	536.0	56.8
Industry	46.0	5.6	44.0	4.6
Services	350.0	42.7	363.0	38.6
Total	820.0	100.0	943.0	100.0

Government Finance

	Central Government		
	USHs Million	(% of GDP)	
	1981/82	1971/72	1981/82
Current Receipts	27,878.0	13.5	4.9
Current Expenditures	30,071.0	13.5	5.3
Current Surplus	- 2,193.0	--	-0.4
Capital Expenditures	13,225.0	8.6	2.3

a/ Adjusted to account for overvalued exchange rate
b/ Calculated at official Window One exchange rate
c/ GDP deflator

Source: Uganda Country Economic Memorandum, IBRD, December, 1983

The CDSS update consists of three sections: Economic Overview, Elements of the AID Assistance Strategy; and Program Aspects of the Strategy. The Economic Overview sector describes the long-range economic potential, depicting evidences to indicate that a marked improvement in the performance of the economy over the past three years, reversing a decade of decline. This has occurred because of the policy measures introduced and followed. Constraints still remain which must be dealt with i.e. idle production capacity, poor record of aid utilization, and internal security problems which affect economic performance by their direct impact on production, transportation, limits on budgetary and external resources especially foreign investments.

The present Government remains committed to pursuing broad economic policy reforms and to the development of a "mixed economy", in which only essential public services will be reserved exclusively for the parastatal sector.

Based on the material in the Economic Overview, the second section calls for an AID program which will provide rapid disbursing assistance to rehabilitate small holder and small holder-related agriculture and to restore productive capacity of enterprises that provide inputs needed by rural Ugandans or that process agricultural output. Efforts by AID to encourage policy reform will concentrate on the sector level with particular emphasis on enlarging the participation of private entrepreneurs and farmer-controlled cooperatives on pricing agriculutrual inputs. AID will continue to monitor ongoing policy discussions between the Government of Uganda and the Multilateral Financing Institutions and AID will provide input when such action is judged to be constructive and productive. The Elements section also draws attention to the fact that the structure of Ugandan agriculture was essentially formed in the 1950's and 1960's but, because a large number of changes have occurred, there is a need to initiate a process (e.g., data gathering, analysis and planning) that will permit Uganda to restructure its agricultural production pattern and marketing to the economic conditions of the 1980's.

For the first time since USAID returned to Uganda, minor input in health has started through the provision of oral rehydration salt solution. USAID is also developing a core project of family health initiative to better coordinate provision of assistance to family planning through training, surveys, contraceptives, etc.

We are also considering a limited involvement in the housing area by providing limited technical assistance for the formulation of housing policies and to offer limited amount of human resources development in the housing area.

The last section outlines a program in which a majority of total AID assistance will be allocated to two major rehabilitation activities--provision of intermediate and final inputs to agriculture and enterprises serving agriculture, and rehabilitation of agriculutural institutions. About one-seventh of the three-year budget will go to facilitating longer-term adjustment of the agriculture sector and preparation for activities after the rehabilitation phase is completed. It is anticipated that the size of the American direct-hire staff will increase to a level of eight persons possibly by FY 85.

II. ECONOMIC OVERVIEW

A. Background

In April of 1979, when the military regime of Idi Amin was overthrown, the once prosperous Ugandan economy was in ruins. Inflation, fueled by massive government deficits, was rampant, factories were idle or functioning at a fraction of their capacity and commercial agriculture, once the mainstay of the Ugandan economy, had largely been abandoned in favor of subsistence agriculture. Many of the country's institutions had collapsed due to inadequate financial inputs and the loss of key personnel. Real per capita incomes at the end of the decade stood at only 60 percent of their 1970 level. (The next to last column of Table II, contrasting 1970 and 1980 production levels, provides further quantitative indication of the degree of deterioration which had taken place in the Ugandan economy particularly in the monetized sector).

B. The Beginnings of Policy Reform and Recovery

Politcal difficulties, administrative weaknesses and a severe shortage of foreign exchange constrained the ability of Uganda's new civilian government to come to grips with the country's problems. Thus it was not until the Spring of 1981 that the newly elected government of President Milton Obote announced a series of major policy reforms, supported by the financial resources of the IMF, that can be thought of as marking the end of Uganda's economic decline.

TABLE II

Gross Domestic Product by Industry

(Millions of Shillings at 1966 Prices)

	1965		1970		1975		1980		1981		1982			
	GDP	% Share	GDP	% Share	GDP	% Share	GDP	% Share	GDP	% Share	GDP	% Share	1980/1970	1982/1980
Monetary Economy	3,939.0	68.07	5,095.0	69.97	4,768.0	64.81	3,822.0	62.50	3,833.0	60.34	4,044.0	60.01	.75	1.06
Agriculture	1,324.0	22.88	1,781.0	24.46	1,605.0	21.82	1,234.0	20.18	1,232.0	19.40	1,382.0	20.51	.69	1.12
Agro-Processing	85.0	1.47	114.0	1.57	59.0	.80	43.0	.70	31.0	.49	43.0	.64	.38	1.00
Manufacturing	375.0	6.48	517.0	7.10	446.0	6.06	218.0	3.57	216.0	3.40	235.0	3.49	.42	1.08
Other	2,155.0	37.24	2,683.0	36.84	2,658.0	36.13	2,327.0	38.05	2,354.0	37.06	2,384.0	35.38	.87	1.02
Subsistence Produc.	1,848.0	31.93	2,187.0	30.03	2,589.0	35.19	2,293.0	37.50	2,519.0	39.66	2,695.0	39.99	1.05	1.18
Agriculture	1,494.0	25.82	1,763.0	24.21	2,085.0	28.34	1,734.0	28.36	1,952.0	30.73	2,124.0	31.52	.98	1.22
Other	354.0	6.12	424.0	5.82	504.0	6.85	559.0	9.14	567.0	8.93	571.0	8.47	1.32	1.02
Gross Domestic Product at Factor Cost	5,787.0	100.00	7,282.0	100.00	7,357.0	100.0	6,115.0	100.00	6,352.0	100.00	6,739.0	100.00	.84	1.10

Source: Uganda Country Economic Memorandum, IBRD, December, 1983

The main elements of the policy reform package were as follows:

First, the Ugandan Shilling was depreciated in value from 7.6 per US Dollar up to 77.8 per U.S. Dollar. More importantly, however, this depreciation has been sustained over time in response to economic conditions such that by June of 1983 the "Window One" rate stood at 150.0 Ugandan Shillings per U.S. dollar and the "Window Two" rate at 280 Ugandan Shillings per U.S. dollar.

Secondly, producer prices for traditional export crops were increased, a development that has again been sustained over time such that by the end of 1983 these prices, depending on the commodity, were 14 to 15 times their nominal 1979 level. At the same time, most consumer price controls were abolished with a view to reducing the distortions of the black market and increasing government tax revenue.

Thirdly, a number of monetary and fiscal reforms were introduced. Interest rates were increased, the revenue system was streamlined and ceilings on domestic and government borrowing were established. As a result, the rate of inflation fell from nearly 100 percent in 1980/81 to 45 and 30 percent in 1981/82 and 1982/83, respectively.

C. The Initial Recovery Program

Following the implementation of these economic reforms, the Government of Uganda turned its thoughts to longer-term planning for rehabilitation and growth. A Ten Year Program of Action

1981-90 was prepared for the UNCTAD Conference on LDCs in Fall of 1981. It soon became apparent, however, that sufficient foreign exchange would not be available to implement this plan and a further review and scaling down was undertaken. The result was the Recovery Programme: 1982-84 which was presented to the Consultative Group for Uganda in May, 1982.

The Recovery Programme was a short term plan focused upon the rehabilitation of the productive sectors of the economy. Emphasis was given to projects which promoted export expansion or import substitution and a return to self sufficiency in food. Recurrent cost impacts upon the government's limited budgetary resources were to be minimized as well. As a result, agriculture, industry and transport and communications were projected to receive 80 percent of the program's resources with social infrastructure being limited to only 15 percent. New starts were held to a minimum with the bulk of resources being focused upon restoring the productivity of existing investments. Some $240 million was projected to be spent on the program during 1982/83 but actual expenditures fell considerably below this, amounting to only $152 million. Many reasons can be cited for this short fall, including basic weaknesses in the government's capacity for administration and implementation. At the 1982 Consultative Group meeting the World Bank estimated that new loan and grant commitments would have to amount to $400 million in 1982 and $450 million in 1983 for the Recovery Program to be implemented on schedule. In the event commitments in each of these two years are expected to average $415 million. Not all of these commitments were related to the Recovery Program and this, plus continuing problems related to internal security, has delayed implementation and reduced the impact on the economy to below expected levels.

D. Results of the Recovery Program and Policy Reform

1. Overall Economic Growth

In spite of the shortfall in the implementation of the Recovery Program, the Ugandan economy has achieved considerable gains in recent years. Gross domestic product grew by 4 and 6 percent in 1981 and 1982, respectively, and indications are that the recovery has continued into 1983. The last column of Table II, which contrasts 1980 and 1982 production levels, reveals considerable improvement as well, particularly in the monetized portion of the economy. Particularly impressive as well are the increases which have taken place in the production of major crops between 1980 and 1982. (See Table III).

2. Balance of Payments

Though the situation remains difficult, Uganda's Balance of Payments has improved in response to policy reforms and the Recovery Program. Led by higher coffee sales, export volumes rose by almost 70 percent during 1981 and 1982. Non-coffee exports continued to grow through 1983 with

TABLE III

Production of Major Crops

(Thousands of Tons)

	1980	1982	Percentage Change
Coffee	135.2	166.6	+23.22
Cotton Lint	6.1	5.1	-16.39
Tobacco	.4	.6	+50.00
Tea	1.5	2.4	+60.00
Sugar (Raw)	4.3	2.5	-41.86
Maize	286.0	393.0	+37.41
Finger Millets	458.0	528.0	+15.28
Sorghum	299.0	400.0	+33.78
Sweet Potatoes	1,200.0	1,600.0	+33.33
Cassava	2,072.0	3,300.0	+59.27
Bananas	5,699.0	6,600.0	+15.81
Groundnuts	65.0	90.0	+38.46
Beans (Mixed)	186.0	300.0	+61.29

Source: Uganda Country Economic Memorandum, IBRD, December, 1983

exports of cotton, tea and tobacco all up from their depressed 1982 levels. In addition, Uganda began exporting a number of non-traditional items including maize to Tanzania. Adjusting for terms of trade, however, the purchasing power of exports in 1983 was expected to be about the same as that of 1980 and, most significantly, less than one-third of their 1970 level. This clearly highlights the importance of external assistance to Uganda's economic recovery and, as Table IV reveals, the donors have responded with considerable, if not entirely adequate, commitments of resources since 1979/80.

The combination of higher export volumes, recently improving terms of trade and increased aid disbursements has helped to finance a much needed expansion of import volumes over the past two years. During 1983, import volumes were expected to be about 30 percent higher than in 1981. Two trends of concern are evident however. First, the Government of Uganda has, since 1980, claimed an increasingly larger share of total imports (and used this larger share predominantly for defense purposes). Secondly, the relative share of non-government imports devoted to productive inputs, vehicles and machinery has, despite the needs of the economy, tended to decline since 1980. Reversal of this trend will require tighter control of government imports, additional aid commitments to finance such imports, and a general improvement in the security situation and degree of economic confidence.

TABLE IV

Balance of Payments

(In US$ Million)

Item	1970	1975	1978	1979	1980	1981	1982	1983
Merchandise Exports FOB	261.6	237.2	322.9	397.2	319.1	245.5	335.0	333.0
Merchandise Imports CIF	-204.9	-262.5	-352.1	-322.1	-503.7	-414.7	-457.5	-497.0
Trade Balance	56.7	- 29.3	- 29.2	75.1	-184.6	-169.2	-122.5	-167.0
Invisibles (Net)	- 43.3	- 49.2	-112.3	- 82.0	- 63.4	- 84.5	-133.3	- 95.0
Current Account Balance	13.4	- 74.5	-141.5	- 6.9	-248.0	-253.7	-255.8	-262.0
Official Grant Receipts	7.0	21.1	8.8	31.6	93.2	103.3	88.4	102.0
Public M & LT Loans (Net)	21.3	16.0	33.8	109.4	81.8	- 1.1	151.1	103.0
-Disbursements	27.4	29.3	69.5	150.4	134.0	92.9	256.6	236.0
-Scheduled Repayments	- 6.1	- 13.3	- 35.7	- 41.0	- 52.2	- 91.8	-105.5	-133.0
Use of IMF Credit (Net)	--	9.9	- 1.8	- 3.5	26.5	125.1	82.4	104.0
Other Capital Items 1/	- 36.9	28.0	48.8	-195.7	-107.2	74.3	78.6	-27.0
Overall Balance of Payments	4.8	0.5	- 51.9	- 65.1	-153.7	50.1	144.7	20.0
Financed By:								
Accumulation of Arrears	--	17.2	70.3	9.6	141.1	- 39.5	- 86.4	-20.0
Change in Reserves (--INCR)	- 4.8	- 17.7	- 18.4	55.5	12.6	- 10.6	- 58.3	N/A
Memo Items								
Arrears Level (End of Year)	--	36.5	105.9	115.5	256.6	217.1	130.7	N/A
Reserves Level (End of Year)	64.8	31.9	72.3	16.8	4.2	14.8	73.1	N/A

1/ Includes Errors and Omissions

As can be seen in Table IV, Uganda has, as a result of forgiveness and rescheduling, made considerable progress in reducing its level of arrears. As of the end of 1982, it had, as well, built up reserves equal to $73.1 million. While this amounted to only 1.9 months' worth of imports, a level well below that appropriate to an economy such as Uganda's, it nonetheless represents a considerable improvement over the three days worth of reserves that existed at the end of 1980.

Despite significant amounts of debt rescheduling and forgiveness and despite its new aid receipts since 1979 being half in the form of grants and the remainder being in the form of highly concessional loans, Uganda still faces a formidable debt service burden. The debt service ratio, including obligations to the IMF, is estimated to have amounted to 52 percent in 1983 and is projected to amount to 46, 46 and 31 percent in 1984, 1985 and 1990, respectively. Accordingly, additional forgiveness and rescheduling may well be required if Uganda's economic recovery is not to be unduly delayed.

3. <u>Central Government Budget</u>

There has been a distinct improvement in the budgetary situation of the central government in recent fiscal years. Revenue and grants rose (see Table V) by a factor of 16 between FY 1981 and FY 1983, with revenues rising from .8 to 6.3 percent of Gross Domestic Product. Factors contributing to this rise include: higher tax rates on major

TABLE V

Central Governm nt Budgetary Operations

(In USHs Billion)

	Actual			Estimates		
	FY72	FY81	FY82	Budget FY83	Latest FY83	Budget FY84
Revenue and grants	1.5	3.3	27.9	45.9	52.8	84.7
Revenue	1.5	2.7	24.4	44.1	52.2	76.5
Grants	-	0.6	3.5	1.8	2.4	8.2
Expenditure	2.4	13.1	43.3	61.0	69.4	102.9
Recurrent	1.5	11.0	30.1	41.3	45.6	63.9
Development	0.9	2.9	8.9	19.3	11.7	35.6
Other	-	-0.8	4.3	0.4	12.0	3.4
Deficit	-0.9	-9.8	-15.4	-15.1	-16.5	-18.2
Financed by:						
External borrowing (net)	0.1	0.8	1.0	12.6	3.6	14.2
Domestic borrowing	0.5	9.0	14.4	2.5	12.9	4.0
Ratios (%)						
Deficit/expenditure	36.6	74.7	35.6	24.8	23.8	17.7
Revenue/GDP	14.0	0.8	4.3	5.3	6.3	7.0
Expenditure/GDP	22.1	3.9	7.6	7.3	8.4	9.4
Deficit/GDP	8.1	2.9	2.7	1.8	2.0	1.7

Source: Uganda Country Economic Memorandum, IBRD, December, 1983.

revenue-producing items, including the implicit taxation of export crops through exchange profits; the impact of exchange rate/price adjustments on the "value" of goods taxed; economic recovery, especially in the monetary and external trade sectors; a reduction in black market transactions and some improvements in tax administration. Although the ratio of revenue to Gross Domestic Product is less than half that achieved in FY 1972, the upward trend is encouraging, especially as the taxable base of economic activity is only just beginning to recover.

Expenditure also rose rapidly in FY 1982 due to the impact of devaluation on costs. Subsequently, expenditure has grown less rapidly than revenue, because the government has restricted cash releases to ministries in order to remain within the IMF ceilings. As a result, the deficit financed only 23.8 percent of expenditure in FY 1983 as opposed to 74.7 percent in FY 1981. The role played by domestic borrowing in deficit finance has also declined significantly since FY 1982.

4. Conclusions

The above discussion of growth trends, the balance of payments situation and government budgetary performance demonstrates conclusively that the Ugandan economy has made considerable progress since the 1981 policy reforms and under the implementation of the Initial Recovery Program for 1982-84. Much remains to be done however,to restore the Ugandan economy to the level of development potential it possessed prior to the depredations of the Amin regime. Accordingly, the focus of the Revised Recovery Program remains upon the restoration of this potential for growth and progress.

E. The Revised Recovery Program

The Revised Recovery Program, prepared for consideration at the January, 1984 Consultative Group meeting, is an attempt to take account of the resource constraints and implementation problem encountered in 1982/83 and to incorporate 1984/85 fully into the investment plan. As a result, it remains focused upon the revival of the productive sectors with emphasis on export expansion, import substitution and increased food production. On a sectoral basis, there has been some reallocation of resources away from minerals, energy and transport and towards industry and social infrastructure though this as much as a matter of donor preferences is a change in Government of Uganda priorities. Total expenditures over the three years 1982 to 1985 are now planned to be close to $800 million, 8.4 percent higher than the original Recovery Program but including a completed investment plan for 1984/85. This reflects a more realistic expectation on the part of the Government of Uganda as to what can actually be achieved.

The Revised Recovery Program includes a number of innovations and changes, all of which should make it more effective in promoting economic recovery. First, a definite effort has been made to provide realistic cost estimates for projects and to phase expenditures in line with implementation capacity. Secondly, the ministry or agency responsible for project implementation has been clearly identified, a step which should expedite implementation considerably. Third, and perhaps most importantly, the Revised Recovery Program reflects an awareness that Uganda's future development efforts must seek to do more than simply restore the economy to the level and structure that existed in 1970. The last thirteen years have produced considerable changes in technology, costs and potential markets and, as a result, certain industries, exports and approaches to the delivery of social services may no longer be efficient or effective. Lastly, the Revised Recovery Program places a high priority on reducing costs to minimal levels and financing these costs through user charges/contributions and village and community efforts. This is particularly true with respect to health and education, both areas which have the potential to impact significantly upon limited Government of Uganda resources without resulting in an immediate impact upon productivity and revenues.

The Government of Uganda certainly deserves to be supported by the U.S. and the other donors not only for the priorities of the Revised Recovery Program but for its efforts to make it more effective as well. Overall, the emphasis upon the private sector, the encouragement of foreign investment, the reliance upon market forces and the clear recognition of resource limitations and the importance of efficiency are to be particularly commended. Indeed, the only major weakness of the Revised Recovery Program is its failure to estimate (and plan for) the recurrent import requirements of the projects it contains. This deficiency could be particularly serious given the uncertain price prospects for Uganda's major exports and the limited external resources likely to be available to the country.

F. Required Resources

In Volume II of the Revised Program, the Government of Uganda projects that the total cost of the program during FY 84 and FY 85 will amount to $587 million and asserts that, including its own limited resources, financing is already 69 percent secured (see Table VI). These estimates are deficient however in that they relate only to the projects which the government is proposing for inclusion in the program. The donors, however, are involved in other activities as well (the U.S. is, for example, shown as contributing only $5 million to the program when our effort is in fact much larger) and these inputs should also be counted.

Accordingly, the best estimate of required resources is to be found in the IBRD's most recent economic memorandum. Here it is estimated that donor commitments would have to rise from $401 million in 1983 to $430 million and $444 million in 1984 and 1985, respectively, and to $541 million

TABLE VI

Uganda
Sources of Secured Financing
for the
Revised Recovery Program - FY 84 - FY 85
($ Millions)

Donor	Agriculture	Industry & Tourism	Mining & Energy	Transport & Communications	Social Infrastructure	Total
EEC/EDF	34.43	.40	5.70	12.00	3.40	55.93
IDA/IBRD IFC	30.50	41.75	.40	25.90	27.35	125.90
IFAD	9.80	--	--	--	--	9.80
ADB	14.00	17.00	--	--	1.50	32.50
U.N. Family	7.20	.62	--	2.20	20.67	30.69
USAID	5.00	--	--	--	--	5.00
FRG	2.60	--	--	--	--	2.60
France	.30	--	--	1.10	--	1.40
UK/CDC	--	6.00	.40	--	--	6.40
CIDA	--	--	--	--	1.82	1.82
Arab Organizations	--	39.00	--	2.00	--	41.00
Other	.30	28.90	.60	16.30	4.14	50.24
Total Donors	104.13	133.67	7.10	59.50	58.88	363.28
GOU	1.40	3.76	6.00	7.00	24.69	42.85
Total Financing	105.53	137.43	13.10	66.50	83.57	406.13
Total Cost	159.38	165.95	25.80	106.50	128.96	586.59
% Secured	66.2	82.8	50.8	62.4	64.8	69.2

Source: Revised Recoverv Program, 1982-1984 by 1990 - in current prices. This would include some $70 million each year in gap financing in FY 1984 and FY 1985 (declining to $30 million by 1990).

G. Growth Prospects

If these commitment levels can be achieved, and the IBRD is not sanguine on this point in today's international climate, the Ugandan economy could grow by 4.7 percent per annum (in real terms) between 1983 and 1985 and by 3.6 percent (again in real terms) between 1985 and 1990. Even with such a performance, however, real per capita GNP in 1990 would still be only 75 percent of the peak level achieved in 1971.

The achievement of such a performance is not only predicated on increased donor commitments however, It is also predicated upon a significant increase in Uganda's coffee quota and upon a considerable improvement in the security situation.

With respect to the coffee quota, Uganda requires an increase from 2.3 million bags in 1983 and 1984 to 2.5 million bags in 1985. Uganda's case for such higher quota is strong given that present production (though above the current quota) is still below peak historical levels and the fact that most of the increase in production is resulting from rehabilitation rather than new investment. Such an increase is thus worthy of U.S. and other donor support.

If the security situation fails to improve it is unlikely, even if increased donor commitments can be made available, that they can be effectively absorbed into the Ugandan economy. Even in today's improved, but still problematical,security climate, donors,including the United States, remain reluctant to field the staff necessary to disburse greater amounts of resources. Also, the continuation of security problems unquestionably reduces the ability of the country to attract the foreign investment it both wants and requires. Importantly as well, continued insecurity will effectively preclude the rehabilitation of the tourist industry, once a major source of employment and foreign exchange.

The Government of Uganda is aware of the importance of increased security to Uganda's future development prospects. Accordingly, security has been given a very high priority in the allocation of resources. Security related expenditures accounted for 25 percent of all government expenditures during 1982/83 and 43 percent of government imports (and 10 percent of total imports) during 1982.

Despite the high priority it has received, the Ugandan military remains as much a part of the problem as part of the solution. What is clearly required over the short term is that the government devote a greater proportion of the resources allocated to defense to the food, uniforms and wages that are critical if the army is to cease to prey on the economy at large and less to purchases of major equipment items of less immediate importance to morale in the ranks. The Ministry of Finance must also take strong steps to prevent the Ministry of Defense from exceeding its budgetary authorizations and from undertaking external commitments without proper approval. Over the longer term, the number of soldiers will have to be reduced such that expenditures can be contained to a level commensurate with realistic defense requirements. The donors can assist in this process both through dialogue and through circumspection in the marketing of "big ticket" defense items.

H. Future Policy Reforms

The Government of Uganda has, in the face of a very difficult situation, turned in a very creditable performance in terms of economic policy reform and longer term planning for the rehabilitation of the Ugandan economy. This has been clearly recognized by the U.S. and the other donors at past Consultative Group meetings. At the same time, however, there are areas of economic policy where further prgress should be encouraged.

1. Establishment of a Unitary Exchange Rate

The establishment of "Window Two" exchange rate system in August of 1982 constituted a major improvement in foreign exchange management. More importantly this improvement has been supported and sustained over time through continued depreciation of the Window One rate and through a continued expansion of the transactions to be conducted at Window Two rates along with the amount of foreign exchange made available through this window.[1/] Notwithstanding this considerable progress the Government of Uganda should establish a single unitary exchange rate as soon as possible and donors should encourage this by insisting that their assistance be converted at Window Two rates. This is true for the following reasons:

First, the Government of Uganda has found it difficult to manage the compositon of imports financed (and rationed) at Window One rates. As a result, certain critical imports have remained in short supply. Secondly, with the proceeds of coffee and cotton exports being converted at Window One rates, the extent to which those commodities are taxed is largely concealed. Thirdly, the availability of certain critical imports at the artificially low prices permitted by Window One may encourage excessive mechanization, particularly in agriculture. Lastly, with import prices in the Ugandan economy largely determined by the Window Two rate, Window One creates windfall profits for those fortunate enough to have access to its resources as well as creating a potential for corruption.

2. Revitalization of the Civil Service and Key Ministries

Uganda clearly has a larger civil service than it needs and, more importantly, a civil service that is larger than it

1/ The amount auctioned weekly was recently increased from $2 million to $ 3 million can afford. Currently, except for civil servants of the highest level, salaries are well below that required to sustain a minimum standard of living let along contain secondary employment and the abuse of authority. At the same time, however, budgetary resources are simply too limited to remedy the situation immediately. Appropriate salary increases will only become possible with production increases in the economy as a whole.

Over the short term the Government of Uganda can continue the present partial freeze on declared vacancies to avoid exacerbating the problem. It can also concentrate its limited resources to a greater degree on key "control" ministries such as Public Service and Cabinet Affairs, Finance, Planning and Economic Development, Local Government and the Office of the President. Until the government can restore its capacity for financial management, data collection and analysis and policy formulation, it will not be able to discharge its other functions effectively.

3. Increased Interest Rates

Despite considerable increases in the structure of interest rates they largely remain negative in real terms given the rate of inflation. Accordingly they should be increased to provide a greater incentive to savers and to insure an adequate supply of credit, and an appropriate blend of labor and capital in the productive process. This will be particularly important now that excess liquidity is beginning to diminish as a problem.

4. Further Improvement in Pricing Policies

The Government of Uganda has done a commendable job in terms of beginning to reestablish market prices as the criteria for decision making in the economy. Producer prices for traditional exports have been raised and a number of controls on consumer prices have been eliminated. (Effective December 21, 1983, producer prices of traditional exports were raised by some 25 to 63 percent). At the same time however the prices received by the farmers are still low relative to the true value of their crops at realistic rates of exchange and ex-factory price controls for a number of basic items continue to reduce the profitability of many industries while creating windfall profits for traders. Prices for electricity also remain too low to encourage efficient use and more importantly to finance the investment in generating capacity that will be required in the future.

5. Improved Foreign Exchange and Budgetary Management

The Government of Uganda has generally done a creditable job in terms of adhering to the overall levels established for both the foreign exchange and domestic budgets. Within the budgets, however, certain critical imports are often inadequately provided for and certain ministries often overspend. Better controls and procedures need to be established such that problems can be avoided in the future.

III. ELEMENTS OF THE AID ASSISTANCE STRATEGY

A. Introduction

Section II of this CDSS supplement described the Ugandan economy. In the process of examining the macroeconomic aspects and the changing policy environment, Section II also indicated the general direction for the AID program to follow. One purpose of this section is to develop the recommendations from Section II by incorporating other general guidance and constraints which impinge on an AID program. A second purpose is to provide a sense of proportion and indicate what can be expected from the AID program in Uganda. A third purpose is to outline how the AID program in Uganda will address the Agency's priorities of policy reform, private sector development, technology transfer and research, and institutional development.

B. Assistance Level and Rationale

The annual level of AID assistance to Uganda is a prime element in the design of the country strategy. In the review of the FY 1984 CDSS AID concluded that the FY 83 funding level for Uganda should be increased from $5.5 million to at least $10 million as a base from which the program would grow if budget levels permitted (State 100928, April 15, 1982). The original premise for the above strategy has changed since the planned levels did not hold for FY 84 as stated for the FY 1984 ABS. The FY 84 level is now $9 million and the budgeted level for FY 1985 is $10 million instead of the original projected level of $19 million. It appears now that over the four year period of FYs 84-87 a total of $52 million is planned instead of $46 million over a three fiscal year cycle.

To provide some perspective on the planned AID assistance budget ralative to aggregate levels and to other donor levels, the projected balance of payments financing gap (average) for each of the three coming years is $180 million.[31/] The World Bank began disbursement of $95 million for rehabilitation in 1981-82 and recently committed an additional $207 million for a combination of industrial, agricultural, education and general rehabilitation purposes. The European Community (EC) will be committing approximately $100 million over the Recovery Programme period. It is not possible to say with precision where the United States will rank among bilateral donors in 1984 but it is plausible that, with a DA level of $9 million in FY 1984, the United States will be one of the larger donors, perhaps along with the Saudi Fund, the African Development Bank and the European Development Fund if these institutions continue their 1982 commitment levels of approximately $15 million each.[32/] The UK, FRG, Italy, France, Australia, and Canada each are committing annually between $3-10 million.

With an average annual budget of $15 million AID will pursue three overall objectives in Uganda: (1) help relieve the pressing foreign exchange constraint; (2) contribute to rehabilitation of productive capacity; and (3) maintain an active role in the continuing process of policy change. In the pursuit of these three objectives AID is only one of several donor participants and the objectives cannot be achieved by AID alone. The relative level of assistance is not directly proportional to the degree of contribution to the three objectives: there tends to be a directly proportional relationship between the budget level and relief of the short-term foreign exchange constraint. However, for the second objective, the contribution can be more or less depending on the promptness and quality of the AID program. The role of AID in the policy process is disproportionately greater because the United States is a repository of large amounts of technical expertise and because of the international position of the United States.

There are several reasons why a substantial increase is warranted. These include the following:

1. Uganda has the human and natural resources which, if complemented by the incremental financial resources, can yield steady, long-term growth;

2. Uganda has already implemented sweeping policy reforms and is continuing the process. The fundamental policy reforms which constitute the necessary conditions for economic growth have been instituted. Additional funds are important to reinforce the government's commitment to the reform effort.

3. Uganda, because of its current economic status which is characterized by under-utilized plant and farm capacity can rapidly and productively absorb additional foreign exchange resources;

4. It is important for the United States to demonstrate in material terms that it is responsive to African countries which make major moves toward a market-oriented

economic model and which cooperate with multilateral institutions;

5. Uganda, in concert with the international donor community, can demonstrate to other African countries what sound, market-oriented economic policies can accomplish;

6. Uganda clearly has the potential to become a regional growth center and efficient supplier of agricultural products and basic manufactures to neighboring countries thereby providing an impetus to economic growth for the entire region.

C. Local Currency Programming

The three-year program will generate a substantial amount of Ugandan shillings. The guiding principle for local currency programming will be that the financial resources be used to support, as directly as possible, the AID effort to rehabilitate small holder agriculture and to assist activities closely related to agriculture. The emphasis on agriculture should be acceptable to the GOU since Ugandan officials have been cosistently receptive to this emphasis in discussions on the subject.

Assuming that growth in money supply will be maintained within the bounds set out in IMF-GOU agreements, local currency generations will be directed to the following areas:

1. Rural Credit - There is a large potential demand by farmers and by primary cooperative societies for tools and other purchased inputs. Making credit available to farmers would facilitate the AID effort to provide agriculture inputs. AID initiated a successful small farmer credit scheme in the 1960's, and the GOU is eager to reactivate it.

2. Reconstructions and Repair - There is a substantial need for local currency to pay for reconstruction and repair work on educational and research facilities in the agricultural

sector. Uganda has seventeen district farm institutes, two agricultural colleges and one cooperative college, all in need of physical rehabilitation. This non-recurrent expenditure will directly complement the AID effort to rehabilitate agricultural institutions.

3. Rebuild Inventories - Agricultural institutions do not have the stocks of spare parts and consumables which are necessary to allow full-scale operation. Much of these materials can be obtained locally. Again, this type of shilling expenditure will directly support the AID effort to rehabilitate agricultural institutions.

4. Agriculture Reassessment - There will be substantial local costs associated with AID efforts to develop alternative crops and production methods and to collect and analyze data for decision-making.

D. <u>Equitable Growth</u>

The promotion of equitable growth is a basic tenant of AID assistance policy. That is, to the maximum extent feasible, AID assistance is designed to reach the maximum number of participants who cannot otherwise readily increase their incomes and in amounts large enough to accomplish the purpose of the assistance. The AID strategy in Uganda will incorporate equitable growth concerns by directing assistance toward Ugandan small holder farmers. Whereas systematic data are not available on rural land holdings, it is known that Ugandan agriculture is predominately small holder in form. The final users of AID-provided commodities can be determined by the selection of the goods themselves and by designing projects which have small holder-oriented delivery systems. Thus the AID program will directly assist small holder farmers and activities which are critical to small holder farming, i.e., production or processing of farm outputs.

The fact that the AID strategy is to assist in the rapid regeneration of existing production capacity, imposes certain inherent constraints. To use an imaginary example, it may be possible to choose between rebuilding a single firm or establishing 10,000 artisans to produce the same quantity of output. Assume further that both alternatives have similar rates of return but the second alternative has a gestation period three times greater than the time required by the first alternative and the risk factor is also three times greater. The second alternative has more favorable income distribution and developmental characteristics than the first alternative. In the proposed strategy the first alternative would be chosen because the first alternative is more likely to yield results rapidly. Given the limits implied by the rehabilitation approach, the economic impact of the AID program will be maximized by designing projects to yield as much domestic value added as possible (i.e., projects that tend to provide intermediate inputs, equipment and spare parts rather than final goods) and thereby restart local production processes and maximize the employment effect. Experimentation with new technologies during the rehabilitation program will be kept to a minimum.

E. Functional and Geographic Concentration

Neither functional (e.g., specific crops or activities) nor geographic concentration are seen as prime determinants influencing the AID program over the next three years. The rehabilitation emphasis of the strategy implies that the allocation of assistance will be responsive to opportunities to restore productive capacity for activities which are linked to small holders or to help increase the production or income of small holders. Some inputs may be distributed throughout the country. And, because Ugandan farmers are polyculturalists, farm inputs such as hoes may be used for a variety of crops.

There is no *a priori* reason to designate a specific geographic region in Uganda as the one in which AID will concentrate except that the distribution of some inputs and the location of some activities will be influenced by other donor efforts. For example, the International Fund for Agricultural Development is providing comprehensive assistance to farmers in six districts in eastern and northern Uganda while the British are assisting cotton production and processing in eastern Uganda (Teso and Bugisu). Thus, AID assistance which would otherwise tend to duplicate other donor efforts will be directed to districts in the central and western part of the country.

F. Private Sector and Policy Aspects

The AID country program will support the expansion and development of the Ugandan private sector as a basic element of AID strategy. This strategy element will be put into practice by designing projects in ways which emphasize private entrepreneur participation as well as the development of Uganda's private cooperative movement. AID already has provided major assistance to Ugma Engineering which has been returned to the original Asian owners but with government participation. Virtually all activities involving provision of intermediate inputs to manufactures and agricultural processing will involve private or private-government enterprises. As noted above, AID project design will place special emphasis on the use of private businesses and traders as intermediaries in the distribution process. In addition, there will be the maximum possible stress on utilization of farmer-controlled cooperatives and other farmer-level groups as project participants.

The policy framework now exists in Uganda that should enable the private sector to reassume its considerable influence on economic development. Our greatest contribution to private sector development will be through the provision of foregin exchange on a term credit basis. AID also will help reestablish the capacity of the banking system to service private sector needs.

Private sector and market forces will also be promoted in policy discussions at all levels. The Ugandan Government is already commissioning studies to determine the extent it should divest itself of control and ownership of a large number of activities in favor of the private sector. AID efforts on behalf of the private sector at this level will tend to concentrate on facilitating more entities to become operational. At the macroeconomic policy level USAID will conduct informal discussions with GOU officials as a means to keep AID appraised of progress in Uganda's reform effort and to keep Ugandan officals informed about AID interests. At the same time USAID will maintain contact with IMF and World Bank representatives, again to exchange views and information on macroeconomic policy devlopments. USAID will not seek to engage directly in the highly technical sensitive discussions which are occasionally conducted between Ugandan and IMF or World Bank officials. If, in the judgement of USAID, a serious macroecomomic policy issue arises, USAID will discuss the problem with Ugandan officials, and, if appropriate, with IMF, World Bank or other donor officials. USAID will participate directly in policy decisions by supporting an effort to collect and analyze data on agriculture. USAID will make this data available to the Agriculture Secretariat which has been established in a collaborative effort between the GOU and the World Bank. One of the Agriculture Secretariat's key functions is to recommend pricing changes to the Ministry of Agriculture.

It will be AID strategy to play a direct role at the sector level, particularly with respect to policies which relate directly to AID assistance activities. Thus, in the course of implementing its development assistance activities AID will encourage the GOU to liberalize input and output distribution and marketing systems and to alter the agriculture input pricing system. Simultaneously AID will explore measures which will stimulate private enterprise activities.

G. Technology Transfer and Research

The AID program in Uganda during the Recovery and Revised Programme period will help restore existing productive capacity and enable poorly functioning institutions to resume more productive operations. AID will have a significant impact on technology transfer and research during the period of this CDSS update. As the Ecomomic Overview has outlined, Uganda's farmers are sophisticated, produce a variety of crops and livestock, and are quite responsive to new technological developments that will enable them to increase productivity. With the ever increasing availability of agriculture inputs, transport and extension services from donors, private sector and government institutions agriculture production is on a steady rise. During the 1984-1986 period AID will continue its focus on recapitalizing small farmer enterprises and on rehabilitating agricultural service institutions.

While technology transfer and research will not be the major components of the AID program in Uganda over the near term a number of actual and proposed activities will develop more efficient production methods and increase production capacity through new technology. Our efforts to restore edible oil production will require the indentification of new oil seed varieties and their adaptation to Ugandan conditions. The Manpower for Agricultural Production project should restore the capacity of a number of Ugandan agricultural training institutions to impart production skills already existing in the country as well as restore a research capacity that long ceased to exist. Rehabilitation of the cooperative movement has resulted in the adaptation of modern accounting and financial systems as well as improved methods of stock control and transport management. Thus, in all three instances the transfer of appropriate technology adapted to Ugandan realities will be an important by-product of our larger effort.

During the period of the CDSS update AID will initiate a number of activities that will lead to a program with an emphasis on technology transfer and research during the out years. First, AID will undertake a study of agricultural production costs and returns. The results of this should help identify areas of production inefficiency and provide guidance on areas where new technology should be explored. AID will also initiate an appraisal of the status and priorities of Ugandan agricultural research. This should provide the basis for determining future agricultural research activities as well as the role of AID in supporting this work.

H. Institutional Development

The 1984 CDSS provided a comprehensive overview of the key institutions that influence Uganda's economic development. It details how they progressively deteriorated under the Amin regime and were supplanted by the army, which became the most important institution in the country. In terms of mobilizing Uganda's considerable economic development potential, the most important insititutions are its private cooperative movevment, the marketing system, existing productive enterprises, the transportation and communications system, financial services, the educational system, extension networks, health systems, the country's research capability, and institutions to maintain law and order.

By the time the current government initiated its economic recovery program most institutions were functioning at low capacity; morale and commitment to institutional growth were subordinated to personal gain. As Uganda became increasingly isolated from modern western developments, technology used in its institutions became stale. Physical infrastructure deteriorated as few investments were made in maintenance and repair, much less in increasing capacity. The looting that accompanied the Liberation War destroyed much of the physical assets that had not been consumed during the military regime.

The 1984 CDSS also identified the key institutions on which AID should focus its resources in order to rehabilitate and expand their capacity to contribute to the Recovery Programme's goals. The priorities include rejuvenating the once strong cooperative movement, improving the efficiency of the crop marketing function, and rehabilitating the industries and training institutions serving the country's small holder farmers.

The cooperative movement in Uganda provides a number of vital services to the country's rural poor. It functions as a source of vitally needed farm inputs such as seeds, agricultural implements, pesticides, fertilizer and cattle drugs. It is a democratic movement, operates in response to free market forces, and functions as a private enterprise. It encourages rural savings and has handled production credit schemes. It processes, transports and markets virtually the country's entire export cash crop output. Further, it operates a number of crop processing facilities as well as a number of enterprises such as poultry or pig production, butchering and marketing.

Through the Food Production Support project AID is deeply involved in the rehabilitation of the cooperative movement. This includes restoring not only the institutional fuctions of cooperatives such as accounting, crop financing, production credit and transport but also its role as a purveyor of agricultural inputs. This effort will continue through 1985 in the Food Production Support project, and thereafter will be expanded into new areas under the Cooperative Development project.

The efficient functioning of Uganda's marketing institutions is vitally important to the income and standard of living of the country's rural poor. These institutions include not the cooperative societies, district unions and processing facilities, but also the marketing boards and banking systems that service related needs. As outlined above AID already working to make the cooperative system more effective. AID was instrumental in drawing GOU attention to the critical importance of the marketing boards through a study AID financed on the Lint and Coffee Marketing Boards. Since then the GOU has decided that its export sales operations must be improved, and is considering a number of the recommendations made in the AID-financed report. While we do not anticipate having further financial input to this process, it is an important element in our policy agenda with Uganda officials.

The second element of AID's institution in the rehabilitation of individual enterprises. This will expand as the Rehabilitation of Productive Enterprise project gets underway. Already AID has gotten two farm implement manufacturers, one of which is under a private management arrangement, back into production. We anticipate getting another 10-12 enterprises underway, including a panga factory, cooperative pig and poultry production and marketing facilities, small farmer dairy operations, and other manufacturing enterprises. Through a combination of capital assistance, technical services and training each of these individual enterprises should be able to continue operating as vaible private sector institutions without need for further assistance in the medium term as Uganda restores its capacity to finance needed imports with its own foreign exchange earnings.

AID efforts to support the development of self-sustaining institutions in Uganda also is manifested in our efforts to revitalize the training facilities that are providing new technology and production skills to the country's farmers. The Manpower for Agricultural Development project emphasizes the importance of reestablishing the close relationship that once existed between the District Farm Institutes and agricultural colleges and the country's rural producers. It will develop not only the physical infrastructure at these facilities but also the capacity of their trainers and staff to better serve locally identified production needs.

In summary, the proposed program for Uganda places heavy emphasis on getting a number of vital institutions fuctioning again as well as improving their capacity to serve rural needs. All of these institutions existed in the past and filled major needs of the agricultural and productive sectors. But, they decayed under the military regime and are not now operating at full capacity. The AID program will focus on restoring their functions, rebuilding needed staff, imporving their adaptability and motiviation, and establishing a self financing base for their continued operation in the future.

I. Adjusting to the 1980's

The basic structure of the Ugandan economy in 1982 is the economy which developed in the 1950's and 1960's; the compostition of production for domestic and foreign markets, the input mix and the technology go back to the 1960's and earlier. During a decade of economic hiatus the Ugandan population has expanded by 30 to 40% (from 10.5 million to approximately 13.5 million persons), the international price structure has changed radically, the structure of international markets and demand has changed and there have been major changes in technology. If Ugandan economic rehabilitation and ensuing growth and development are to be guided by market forces and principles of economic efficiency, it is unlikely and inadvisable that the future structure of the Ugandan economy replicate that of the late 1960's

The first objective of rehabilitating existing productive capacity (guided by economic efficiency criteria) is a valid and rational goal, but it is also necessary that steps be taken during the rehabilitation phase which will form the basis for making adjustments during the 1980's. While Uganda retains its basic comparative advantage in agriculture and in its major export crop,.coffee, the compostition of agricultural production must be reexamined and adjustments made if Uganda is to sustain growth over the long-term. For example, the potential for expansion in earnings from coffee exports is limited because of a quota constraint and the long-term price prospects for coffee are mediocre. It will be possible to increase revenue from coffee by upgrading quality, but this alone is not adequate to support long-term growth. Cotton is another example. This commidity was the second largest exchange earner in the late 1960's but its export prospects are doubtful. With the 30 to 40% increase in population between 1972 and 1982, there has also been a proportionate increase in domestic demand for cotton textiles. At the same time the freight costs of exporting cotton have increased several fold, making the net return on cotton exports lower. Also, cotton is not as well suited to Ugandan growing conditions as some other crops which offer a higher return.

The Ugandan economy is heavily dependent on coffee for foreign exchange earnings with cotton a distant (and dubious) second. It is apparent that over the next few years steps should be taken to exploit Uganda's substantial agricultural potential by systematically diversifying agriculture. Two general directions are indicated in light of the relative changes in prices during the 1970's. With the increase in transportation charges, it is necessary to develop either high value crops or crops which can be processed to a higher unit value in Uganda. There is also greater scope for economically efficient import substitution because of the increase in the price of imports and Uganda's larger population. An ideal situation, of course, is to find a set of new crops which are import substitutes but which can also be exported profitably. Oilseeds are one example of a family of commodities which fall into this category.

On the production side, it is likely that the input mix and the technology for many activities are no longer economically efficient because of the different price structure and because of changes in technology that have occurred over the past decade. To the extent a new activity has a sound economic design these factors are taken into account. However, it may be useful to look selectively at some existing activities. For this reason it is urgent that AID initiate and complete a study of production costs and returns for differing production patterns.

Given the increase in population in neighboring countries during the 1970's and their increase in food imports, Uganda may be able to develop a substantial food export industry. Many of the foods that Uganda can produce in surplus--for example maize and millet--are staples within the region. However, unless some of Uganda's neighbors are able to establish convertability in their currencies, Uganda will be limited essentially to a series of bilateral barter arrangements for most trade within the region. The food export option, nevertheless, offers appreciable potential given Uganda's landlocked position and the need to pay overland transport charges to Kenya and Tanzania.

To be able to sustain growth and development in agriculture beyond the rehabilitation phase, it is necessary to initiate the establishment of a foundation for the diversification of agriculture as soon as possible. To facilitate this effort USAID will initiate a selective review of diversification possibilities and survey Ugandan institutional capabilities to support agricultural development. This process can be expected to involve studies of technical feasibility, processing and marketing studies, assessments of foreign markets and pilot projects. One study will concentrate on assessing Ugandan agricultural research capabilities. This assessment will be used to design an assistance program for agriculture research and to help develop a research strategy designed to support long-term diversification; In order to move as rapidly as possible into a directly-productive activity, AID already has investigated the economic and technical feasibility of expanding and diversifying oildseed production and is developing a project to accomplish this.

J. Health and Education

Health

Since the return of USAID to Uganda, there has not been a health program included in the project portfolio. The USAID did respond to immediate health needs after the Liberation War through assistance to hospitals and health clinics. Aside from the assistance to Mulago Hospital, the rest of the assistance was through Private Voluntary Agencies.

As in many developing countries, diarrheal disease are one of the leading causes of death in small children and an important contributing factor to infant malnutrition. There is a lack of available quality water and adequate sanitation facilities. It has been reported that approximately ninety (90) percent of Uganda's rural population relies on an unprotected source of its major water supply.

The Mission will undertake a jointly funded oral rehydration project with UNICEF in FY 1984. Even though the previously approved strategy excluded an official health sector strategy, the Update incorporates for the first time our initial entry into the area and the strategy will be fully developed in the 1987 CDSS.

High mortality rates are a major factor in under age 5 mortality because of the costly and ineffective rehydration activities being presently employed for children with diarrheal diseases. Existing ORT techniques have been shown to be low cost and if community-based and effectively implemented, can be achieved without additional GOU staffing, during routine Maternal Child Health/Paternal Health Care (MCH/PHC) program visits.

Family Planning

The Mission has relied on central and regional funds to finance a limited committment to family planning initiative. Through those funds, contraceptive supplies, training of health specialists both in Uganda and abroad have occurred in great numbers and supplies of all nature have been provided to augment the ability to delivery effective family planning in Uganda. Uganda is one of the few countries with positive family planning policies and is open to advice and assistance to help bring down its present growth rate of 2.8% percent.

An attempt will be made in FY 84 to design a core project under the regionally funded Family Health Initiative Project to assist the Mission in controlling the growth of small centrally funded projects which are tasking the limited management capacity of the Mission. Through this core project funds will be available to procure contraceptive supplies, conduct family surveys, provide training in essential family planning, and exclude primary health care. Some centrally funded projects will be strictly complimentary

Education and Human Resources (EHR)

USAID/Uganda does not have a full scale EHR program, although the Mission is presently participating in the regionally-funded African Manpower Development Program (AMPD), to improve the general level of expertise of the staffs of the planning units of those Ugandan ministries directly concerned with agricultural policies and development planning. There is currently no hard data on the human resources status of Uganda. Therefore, our efforts in this area have not been systematic and will continue to be small until we are able to determine the aggregate and specific needs of Uganda. Toward this end we propose to conduct an education in human resources sector assessment in FY 1984.

The Government of Uganda with the assistance of a number of donors has stepped up the training of Ugandans since the Liberation War of 1979, in an attempt to replace the depleted ranks of professional and mid-level managers and technicians who departed the country in the periods immediately before and during that war. Despite the lack of adequate base line data it is also the Mission's qualified belief that there is a tremendous need and potential for training managers and technicians in Uganda. In order to provide a more coordinated and systematic approach to the development of human resources in Uganda we plan to add a bilateral program to our portfolio to strengthen in-country institutions to develop technical, administrative and managerial human resources, and address the needs derived from the above planned sector assessment.

K. Urbanization

Uganda's population is currently growing by 2.8 percent per annum and is becoming increasingly urbanized. This, plus the economic decline and collapse of the 1970's - when very little construction took place - has created a serious housing problem in Uganda, particularly for the urban poor.

Though the economy has clearly begun to revive, the Government of Uganda and the economy at large currently lack both the domestic resources and foreign exchange necessary to begin to directly address the problem through a program of low cost housing construction. Other activities, more directly related to the rehabilitation of productive capacity, have higher claim on the economy's limited resources and this condition is likely to prevail well into the medium term.

At some point in the future, however, the housing problem, particularly as it relates to the urban poor, will have to be addressed and this will be less costly and more effective if planning with respect to the problem begins as soon as possible. With adequate urban planning, for example, sites for low cost housing can be reserved and procured in close proximity to future sources of employment. Infrastructure such as schools, markets, clinics, roads and water/sewerage can be appropriately planned, designed and ultimately located to meet future needs. All of these actions will lower costs, and facilitate solutions, when the economy of Uganda has recovered to the point that it can begin to address its clearly critical housing problem.

Accordingly USAID/Uganda plans to utilize the services of the Regional Housing Office in Nairobi to assist the Ministry of Housing with its urban planning functions and to assist in its staff development with a limited amount of external training. Here the strategy is that of minimizing, through more adequate planning, the ultimate (but currently unaffordable) cost of solving Uganda's housing problem with respect to the poorer elements of the urban population.

L. Implications for U.S. Assistance Strategy

I. Continued Support for Policy Reform

Most of the economic reforms outlined in Section H. of the "Economic Overview" can best be dealt with in concert with other donors under IMF/IBRD leadership - with the U.S. strongly supporting these efforts. Though not an economic issue per-se, the security situation also needs to be treated as a part of a collective donor effort if economic rehabilitation and recovery is not to be delayed.

There are, however, some actions which the U.S. could take on a bilateral basis to improve the overall economic policy climate.

- In-country and overseas training for personnel from key ministries in support of better budgetary - and foreign exchange management and an improved capacity for economic planning and management at all levels.

- Support for more rational pricing of agricultural inputs - (hoes) and more rational taxation and pricing of agricultural outputs (oilseeds). Support for an improved institutional climate for the private sector, particularly as it relates to freedom of entry (licensing) and access to key inputs such as credit.

II. Development of a Commodity Import Program in Uganda

A U.S. financed CIP program in Uganda would contribute to the revitalization of the private sector, particularly agriculture and agriculturally related enterprises, and increase the capacity of the country to earn foreign exchange. It would also assist in creating employment for a population that is becoming increasingly urbanized and create productive alternatives for a civil service that is already larger than the country can afford. It would also contribute to meeting the recurrent import costs of the Revised Recovery Program and closing an annual financing gap that the IBRD has estimated will amount to $70 million by 1985 and down to $30 million by 1990.

Such a CIP would also provide a non-inflationary source of local currency to meet key needs related to rural credit, reconstruction/repair/restocking and agricultural research/data collection.

Significantly too, a CIP would provide a means of significantly increasing the level of U.S. assistance in a way that is not personnel intensive - a key factor if the security situation fails to improve.

III. Support for Studies to Help Identify New Directions for Uganda in the 1980's

The economic environment in which Uganda will function in the 1980's (and beyond) is clearly much different from that which prevailed in the 1960's and early 1970's. The East African Economic Community has been dissolved (though cooperation among the former members is once again increasing). Technology has also changed as have international price relationships - most notably in the case of oil. Certain of Uganda's neighbors have become food importers (creating new markets for Uganda). Likewise, Uganda's population has grown creating new opportunities for import substitution as the economy recovers. Higher transport costs are relatively inexpensive hydropower may also give Uganda a competitive advantage (vis-a-vis the rest of the world) in marketing certain manufactured products in neighboring countries. Higher value, low bulk agricultural products, which could ideally be processed to even higher value in Uganda, also need to be investigated.

USAID/Uganda has an important role to play in assisting Uganda to make the transition into this new environment. This could consist of support for studies to identify new crops, technology, products and markets and more importantly increasing the capacity of Ugandan institutions to undertake such studies themselves.

IV. PROGRAM ASPECTS OF THE STRATEGY

A. Assistance Planning Levels and Program Composition

Table VII summarizes the four-year program. The program will use the development assistance account and assistance activities will be in project form. All projects will be grant funded. Almost 90% of total funding will go into projects which provide necessary production inputs either in the form of intermediate or final products or as improved skills and better technology. A small part of total assistance will go to project activities intended to facilitate changes in production and help indentify new markets. No PL 480 resources will be required.

In the past USAID has relied upon central and regional funds to finance limited family planning activities in Uganda. Recently an assessment of Ugandan family planning programs was prepared. It recommended that USAID continue developing a cadre of trainers, particularly at the nurse, midwife and auxiliary level, to carry out in-country family planning clinical training and refresher programs. These training sessions would be assisted through AID financed intermediaries and a regional initiative. In addition, direct AID funding of some participants would be required. USAID will initial a core project under regional funds as well as rely to a limited extent on Central AID/Washington to support these activites.

Table VII. PROPOSED ASSISTANCE LEVEL
(in millions of dollars)

Category	84	85	86	87	Total
	Fiscal Year				
Agricultural Rehabilitation	8.0	6.7	7.3	-	22.0
New Enterprises Development		1.0	4.0	10.5	16.5
Development of Agriculture (Oilseed Production)		1.0	1.7	3.3	6.0
Health Prevention	1.0	1.3	1.0		3.3
Manpower Resources Development			1.0	4.2	5.2
Family Planning (all Regional/Central funds only)					
Total	9	10	15	18	52

B. Program Management

The AID Office in Uganda has seven approved direct hire positions: Mission Director, Executive Assistant, Assistant Director for Program, Project Officer, Agriculture Officer, Agriculture Economist, and a Management Officer. The Mission Director believes that the staff size is sufficient to manage the proposed program so long as staff time is allocated to areas which are contained within the AID country strategy. The Uganda AID Office will continue to rely heavily on the services (legal, contract, commodity management, project and technical) provided by REDSO/ESA and on the accountring services of the Regional Financial Management Center in Nairobi.

To manage adequately the rapid expansion of the development assistance program it is conceivable that another slot could be adequately used to assist in the program area as well as devise evaluation plans for each ongoing project and new projects to provide efficient project management.